Sempra Energy℠

Michael Murray
Director, State Governmental Affairs
Sempra Energy

925 L Street, Suite 650
Sacramento, CA 95814

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California Power Authority
901 P Street, Suite 142A
Sacramento, CA 95814

RE: Energy Resource Investment Plan

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On behalf of Sempra Energy, thank you for the opportunity to provide comments on the California Power Authority's Draft Energy Resource Investment Plan.

Sempra Energy commends the California Power Authority (Authority) on its efforts to meet the mandate imposed by the Legislature in SB 6x to submit an Energy Resource Investment Plan (Plan) to both the Legislature and the Governor by February 15, 2002. The January 18 Plan provides a good beginning for meeting this deadline.

The Plan addresses a number of areas of great importance to the State of California. In order to assist the Authority in developing an effective Plan, Sempra Energy offers the following comments.

**Renewables**

The Plan places emphasis on the Authority's playing a key role in facilitating development of renewable resources. This is a vital role for the state to play. A renewables strategy is necessarily a statewide activity, since its benefits are intended to be uniform. Accordingly, the costs of a program to facilitate renewables must also be allocated uniformly, on a non-bypassable basis throughout the state. The Authority or a similar state agency is the proper and logical means to attract and initiate renewables in the state. To the extent that the Plan contemplates such a role for the Authority, Sempra Energy believes the Plan is exactly on track.

However, in this context, we disagree with the report's assertions (pp.18) that the legislature or CPUC needs to require each individual investor-owned utility to supply a portfolio of renewables. Such an approach would not make the state's renewables program a statewide initiative; it would not ensure a fair allocation of costs to match the statewide benefit the renewables program is intended to provide, and it would require complex administration in order to achieve the identified level of renewables.

Finally, the Plan identifies desired levels of renewables commitments, but we did not see an analysis of the relative levels of cost-effectiveness of such acquisition. Sempra Energy encourages the Authority to conduct a thorough analysis of those costs, with input from experts in the state to help confirm what the desired level of renewables commitments should be. Depending on the cost, the state should also explore further the tradeoff California consumers are willing to make between the cost of renewables as compared with the market price and the value of renewables. Such an analysis should reflect the impact of time of delivery of those resources, the degree of firmness of anticipated deliveries, and the impact on transmission of such deliveries. We have not seen any unbiased analysis of that to date.

**Resource Requirements**

The Plan bases its recommendations on assumptions of reserve margins covering a potentially broad range. The Authority correctly identifies the need to understand the appropriate level of reserve margins. However, the Plan does not appear to engage in any independent analysis of desired reserve margins. The state should reach any conclusion on the level of commitments it should make based on a comprehensive, objective assessment of anticipated levels of supply and demand, and a prudent assessment of the levels of risk that are relevant to determining the proper level of planning reserves.

The Plan appears to reach some sweeping conclusions on reserve margin levels, and even on the extent to which regulatory policies impact planning reserve margins that are not supported. For example, the Plan suggests that prior to restructuring, utilities had incentives to over-build. Sempra Energy disagrees with this assertion. We believe that the incentives at the time were to manage reserve margins very carefully. The Plan suggests that there is significant uncertainty driving the need for higher reserve margins. Sempra Energy agrees that there are huge uncertainties today. However, we have not seen an analysis of how those uncertainties affect the determination of the proper level of operating reserves. Additionally, we believe that there are many things the state could do to provide a better business environment for energy suppliers that would help to manage some of this uncertainty. Overall, we believe that the whole issue of uncertainty and planning reserves merits further consideration to ensure prudency.

**Infrastructure**
The Plan calls for the Authority to be given the ability to finance transmission lines in limited instances where the Independent System Operator (ISO) certifies it is needed to relieve congested paths. Sempra Energy believes that the Authority can take a useful role in financing and facilitating the development of needed infrastructure, whether it is generating supply, electric transmission, or natural gas pipelines. We encourage the Authority to explore further how it could carry out this function. Furthermore, we encourage the state to explore ways to ensure that state agencies coordinate in supporting infrastructure development. Any actions the state can take to eliminate impediments and encourage and facilitate needed energy infrastructure, will provide statewide benefits.

**Relationship between various state agencies**
Although the Plan attempts to define the role of the Authority and what sets it apart from other state agencies, the fact remains that there are a lot of agencies involved in energy. The complex array of state agencies that sometimes perform overlapping tasks, can be counterproductive to accomplishing the state's energy goals. Sempra Energy urges better coordination among all of the various state agencies to establish a clear and efficient process to fund and procure energy-related projects including generation plants, transmission lines, pipelines, and energy efficiency measures.

These comments represent Sempra Energy's main concerns with the Plan. We are committed to working with the Authority and other stakeholders to ensure that California's energy outlook is viable and healthy, a necessary component for the state's economic recovery.

Sincerely,